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SENSITIVE
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SUBJECT: Japan Economic Scope for September 22, 2008

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¶1. (U) This cable contains the Japan Economic Scope from September 17, 2008.

Business

¶12. (U) Japanese Exports to China Hit New High

Japan's exports to China in the first half of 2008 increased nearly 24 percent over the same period in 2007 to more than \$62 billion -- a new high -- according to the Japan External Trade Organization (JETRO). Japan's two-way trade with China grew by 17.2 percent during the same period to \$130.8 billion dollars, while China's trade surplus with Japan declined by 4.8 billion dollars to 6 billion dollars. Japanese exports were fueled by sales of commodities, construction-related machinery, parts and materials for China-based Japanese automakers, automobiles and value-added electronic devices. Chinese imports to Japan increased by 11.7 percent to \$68.4 billion dollars, driven by a steep rise in purchases of coal, ferroalloys, and other steel-related goods.

¶13. (SBU) MAFF's Revolving Door Spins Again

Agriculture, Forestry, and Fisheries Minister Seiichi Ota resigned September 19 in the wake of a food scandal involving tainted rice. Ota's resignation follows the ouster of his deputy, Vice Minister Tohsiro Shirasu, on September 18. Both Ota and Shirasu have been widely criticized for comments downplaying lapses in MAFF oversight -- lapses that allowed moldy and pesticide-tainted rice to be sold illegally to food processors and enter the food supply. Chief Cabinet Secretary Machimura will do double-duty as MAFF Minister, presumably until an anticipated cabinet shuffle following the LDP's presidential election September 22. The MAFF Minister will be the sixth since September 2006 (not counting acting ministers).

Environment and Energy

¶14. (SBU) Japan Concludes Strategic BIT with Uzbekistan

Japan and Uzbekistan concluded a Bilateral Investment Agreement--Japan's first in Central Asia--in August after three rounds of negotiations that began in November 2007. The agreement is Japan's 14th bilateral investment treaty and, according to the Ministry of Economy, Trade and Industry (METI), and is one of the most comprehensive bilateral economic agreements Japan has concluded, with provisions for national treatment, dispute resolution, prohibition of corruption and the free movement of capital.

Uzbekistan has not been a major target of Japanese investment, with

only \$10 million in FDI in 2007 and thirteen Japanese corporations, according to METI. However, the country is strategically important to Japan as a source of mineral resources, including gold, and several trading houses have agreements for uranium exploration. Industry has generally welcomed the agreement as a symbolic measure if not a catalyst for increased investment, and a senior official at a major trading company with interests throughout Russia and Central Asia told Embassy staff the agreement is an important signal of GOJ support of Japanese private sector investment in the region.

However, the exact legal protection afforded to energy-related investments is uncertain. While the treaty contains "authorizations, and permits, including those for the exploration and exploitation of natural resources" in its definition of investments, the Government of Uzbekistan suspends national treatment and the prohibition of performance requirements in the fuel and energy sector, "reserv[ing] the right to adopt or maintain any measure relating to investments in fuel and energy."

¶15. (U) Coastal Research Whalers Aim To Catch 60 Whales in Eastern Hokkaido Waters This Season

Research vessels brought the very first catch of minke whale into the eastern Hokkaido port town of Kushiro on September 9 under this year's Japanese coastal whaling research program. The research is scheduled to continue through October 20. The whaling operation could end earlier, though, if the four ships operating within a 90 kilometer radius of Kushiro make their quota of sixty whales before them. The Fisheries Agency of the Ministry of Agriculture, Forestry and Fisheries says that the research is aimed at studying the whales' feeding patterns and their effect on fish stocks. All

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whales will be dissected to study gastric content. The byproduct meat will be then marketed with profits going towards the financing of future research whaling missions.

Transportation

¶16. (U) Rising Fuel Costs Lead Airlines and Ferry Companies to Cut Services in Northern Japan

Several Japanese transportation carriers claimed rising fuel prices over the past two months as the reason for eliminating or reducing services between Hokkaido and the rest of Japan. Local governments are concerned about how this will affect local distribution services and regional tourism. In August, both JAL and ANA decided to either terminate or decrease the number of flights between Hokkaido destinations and Kansai International Airport.

SCHIEFFER